

AA-25112

Seat No. _____

M. B. A. (Part-I) Examination

April / May – 2003

Accounting For Managers : Paper-I

Time : 2 Hours]

[Total Marks : 50

Instruction : There are **four** questions. Q.1 carries **14** marks while all other questions carry **12** marks each.

1 Answer the following questions : (any **two**)

(a) State true or false with explanation :

- (1) Talled trial balance is a proof of correct accounting records.
- (2) As the total tax advantage on depreciation is same under SLM and WDV, the management is indifferent as regards the selection of depreciation method to avail the tax advantage.
- (3) Generally the physical issue of inventory is made under FIFO sequence, even if the company follows LIFO.
- (4) Under AS-11, foreign exchange losses on the purchase of the fixed assets are capitalised.
- (5) As per sec. 205 of the Companies Act, 1956, for ascertaining the divisible profits, the depreciation on fixed assets is required to be provided as per the rates prescribed in the Income Tax Act, 1961.
- (6) Where ROI is higher than the interest rates on the long term debt funds, it always results into higher ROE.
- (7) Despite the huge profitability, sometimes the business firms face cash shortage condition.

(b) Explain the following :

- (1) Various impacts of the transactions of the balance sheet.
- (2) The need for the closing entries.
- (3) Compensating error.
- (4) (i) Accounting period concept
(ii) Cost concept.

- (c) Following trial balance is extracted from the ledgers of the *Abad Ltd.*

Trial Balance (as on 31-3-2003)

| Particulars | 2002 Rs. | 2003 Rs. |
|-----------------------|------------------|------------------|
| Share Capital | – | 4,00,000 |
| Reserves | – | 5,00,000 |
| Debtors & Creditors | 1,80,000 | 99,000 |
| Fixed Assets | 8,00,000 | – |
| Admn. Exp. | 1,40,000 | – |
| Cost of goods sold | 5,80,000 | – |
| Sales | – | 8,40,000 |
| Investments | 20,000 | – |
| Income on investments | – | 1,000 |
| Cash and Bank | 1,20,000 | – |
| Total | 18,40,000 | 18,40,000 |

Following events are to be considered before preparing the final accounts :

- (1) The closing stock amounted to Rs. 15,000
- (2) Rs. 10,000 administrative expenses are unpaid
- (3) Fixed assets are to be depreciated @ 20%
- (4) Interest on investments accrued but not received Rs. 500.

Required :

- (1) Pass the relevant year-end event i.e. adjustment entries.
- (2) Prepare the post-event revised trial balance. (Ledger effects on the relevant ledger accounts need not be shown in the ledger form).

- 2 (a) Following condensed financial statements relate to the Prakash Ltd. for the year ended on 31st March.

P & L A/c (Rs. in '000')

| Particulars | 2002 Rs. | 2003 Rs. |
|----------------------------------|-------------|-------------|
| Sales | 10,000 | 12,000 |
| Less : Cost of goods sold | 7,000 | 8,400 |
| Gross profit | 3,000 | 3,600 |
| Less : Admn. & sales exp. | 1,400 | 1,650 |
| Depreciation | 250 | 350 |
| Interest | 450 | 300 |
| Taxes | 400 | 500 |
| Profit after taxes | 500 | 800 |

Balance Sheet
(as on 31st March) (Rs. in '000')

| Liabilities | 2002 | 2003 | Assets | 2002 | 2003 |
|---------------|--------------|---------------|------------------|--------------|---------------|
| Share capital | 2,000 | 2,000 | Net Fixed assets | 4,500 | 5,000 |
| Reserves | 1,200 | 2,000 | Current Assets | | |
| 15% Term loan | 3,000 | 2,000 | Inventories | 1,600 | 2,000 |
| Creditors | 1,200 | 3,000 | Debtors | 1,400 | 2,200 |
| Unpaid Exp. | 600 | 1,000 | Cash & bank | 400 | 760 |
| | | | Misc. expenses | 100 | 40 |
| | 8,000 | 10,000 | | 8,000 | 10,000 |

Calculate following ratios (any four) for both the years and give your comments for the changes occurred in the latest year :

- (1) Current ratio (2) Net Profits Ratio (3) Rate of return on investments (4) Rate of return on equity (5) Total assets turnover (6) Debtors turnover (7) Debt-equity ratio.
- (b) Briefly explain the methods of recognizing revenue on the long-term contracts.

OR

- 2** (a) Following details relate to a fixed asset of the Deepak Ltd. **20**

Initial cost : Rs. 5,00,000

Estimated life : 10 years

Required :

- (1) Calculate the depreciation for the first two years under (b) WDV
- (2) If the tax bracket of the company is 40% then calculate the tax advantage on depreciation for both these years under each method.
- (b) Briefly explain the following methods of the inventory valuation : (1) FIFO (2) LIFO (3) Weighted Average. Also explain the impact of the FIFO method on the gross profits under the rising price trend.

- 3** Answer the following : (any **two**)

- (a) Briefly explain AS-11 provisions relating to a foreign branch.
- (b) Discuss the SEBI regulation on the publication of the quarterly accounting information.
- (c) Explain AS-8 relating to the "Accounting for Research and Development."
- (d) Evaluate the utility of the cash flow statement.

- 4 Following condensed balance sheets relate to the Jyoti Ltd. as on 31st March.

Balance Sheets
(as on 31st March) (Rs. in '000')

| Liabilities | 2002 Rs. | 2003 Rs. | Assets | 2002 Rs. | 2003 Rs. |
|------------------|-------------|-------------|-----------------|-------------|-------------|
| Share capital | 200 | 200 | FA (at cost) | 400 | 500 |
| Reserves | 60 | 100 | less: Acc. dep. | <u>80</u> | <u>100</u> |
| 12% debentures | 100 | 140 | Net FA | 320 | 400 |
| Cur. liabilities | 100 | 110 | Investments | 70 | 60 |
| Prov. for taxes | 40 | 50 | Inventories | 30 | 20 |
| | | | Debtors | 60 | 100 |
| | | | Cash & Bank | 10 | 12 |
| | | | Misc. Exp. | 10 | 8 |
| | 500 | 600 | | 500 | 600 |

Additional Information :

- (1) During 2002-03, investments of Rs. 10 were sold out a loss of Rs.4
- (2) Last year's provision for taxes were paid in full during the current year.
- (3) Interest paid on debentures during the current year Rs. 12.
- (4) Income from investments received Rs.5
- (5) The company is a closely-held company and all profits are transferred to reserves.
- (6) During the current year, a new fixed asset costing Rs. 100 was purchased.

Prepare the cash flow statement as per the provisions of AS-3.

OR

- 4 (a) Briefly explain the cash flows arising from the following activities.
- (1) Operating activities
 - (2) Financing activities
 - (3) Investing activities.
- (b) Briefly discuss the Du Pont Ratio tree,

OR

Debt service coverage ratio (DSCR)